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SUBJECT: Novosibirsk - Stability Above All Else

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Summary

11. (SBU) Political stability is the watchword in the Siberian city of Novosibirsk, even more so as financial crisis threatens the rapid economic growth that had been the justification for a narrowing of the political landscape. Officials from the city and regional administration emphasized the "cooperative" spirit among the four Kremlin-sanctioned parties in dealing with challenges. Others outside the political system have more or less made their peace with the highly centralized, essentially one-party framework and are devoted to working within the system to try and bring about change. End summary.

The Official View

12. (SBU) Deputy Mayor Valeriy Fedorov underscored to us the political stability in the city, which, he professed, was promoted by a pragmatic and cooperative approach between the administration and the city Duma. He claimed that the two sides discussed issues rationally and came to the "proper" decisions with little friction. Even with upcoming mayoral elections, Fedorov had little concern about the campaign -- noting he did not expect any "extremism" to appear. As a point of reference, he hinted at the superiority of the managed democracy in Russia to what he saw as the distractions of the U.S. presidential campaign and the "chaos" of the Ukrainian system.

13. (SBU) Vladimir Panarin, the chair of the regional administration's committee for societal-political relations, likewise described Novosibirsk as a model of political stability, a marked improvement over the more chaotic 1990s. Panarin was on message with his relatively upbeat assessment of the regional situation even as he admitted some businesses were feeling the credit crunch. Panarin and Fedorov both discussed new policies, such as the provisioning of cheap capital for building firms, as ways to mitigate the economic fallout, and they appeared confident that they would ride out the storm.

14. (SBU) Panarin, Fedorov, and Ambassador Viktor Salmoilenko --the Ministry of Foreign Affairs representative to the Siberian Federal District -- all sounded a note of disappointment in the lack of U.S. engagement in the region. Salmoilenko went through a long monologue about the various life-changing technologies being created in Novosibirsk laboratories and factories and questioned why U.S. firms were not more engaged in the region. He was a strong advocate of foreign firms building production facilities in Russia, but was not swayed by the argument that specific policies like the Yukos affair, Putin's Mechel comments, and the problems faced by Western businessmen at TNK-BP had highlighted the risks of doing business in Russia. Fedorov lamented that the "sister-city" relationship with Minneapolis/St. Paul had not really developed and compared it

negatively to Novosibirsk's close ties to Japan's Sapporo.

Political Hegemony

15. (SBU) Our contacts from outside the government shared the official assessment of regional political stability and credited it to the positive relationship between and capable leadership of the two main players: Governor (and former city mayor) Viktor Tolokonnskiy and Novosibirsk Mayor Vladimir Gorodetsk. For example, Vera Prokhina of the Parliamentary and Self-Government Center (a liberal NGO supported in part by IRI funding) described Gorodetsk as competent, albeit not "political," and called Tolokhonskiy a good man, but weakened by his emphasis on loyalty over competence when staffing his administration.

16. (SBU) Governor Tolokonnskiy is native to Novosibirsk region and the regional political elite consider him "one of ours" -- a situation that contrasts with the insertion of "outsiders" by Moscow in nearby Siberian regions like Krasnoyarsk and Irkutsk. As such, Tolokonnskiy did not enjoy the same level of personal association with the federal leadership as his fellow Siberian governors and indeed had labored to strengthen his relationship with Moscow. Part of his problem was historical; he did not join United Russia until 2006 and had alienated some in Putin's Kremlin by gaming the electoral system in the 2003 gubernatorial election -- in which he helped the opposition to gain a greater stake in the legislature at the expense of United Russia as a means to strengthen his position.

17. (SBU) Conflict with the Siberian Federal District "Polpred" Anatoliy Kvashnin had further complicated Tolokonnskiy's approach to Moscow. Maksim Aykashev of the regional newspaper Vedomosti-Novosibirsk noted that Tolokonnskiy had sparred with Kvashnin, when the latter backed a rival candidate for governor in

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12007. Nonetheless, Putin re-nominated Tolokonnskiy to the governorship in 2007 and he was approved easily by the regional parliament. At present, with an "appropriate" turn-out for United Russia and President Medvedev during last year's Duma and Presidential races, Tolokonnskiy appears to have mended his fences and enjoys a better relationship with the federal elite.

18. (SBU) Both Tolokonnskiy and Gorodetsk are card-carrying members of United Russia, the regional political hegemon with little real competition from the other parties. The "liberal" parties have only a token representation in the region and, reportedly, no electoral support. Indeed, the scientific and intellectual elite of Novosibirsk's Academic City that one might see as a base for liberalism strongly supported the Communists, harkening back to a time when they received impressive compensation and adulation from the Soviet elite. Professor Aleksey Osipov of the regional Public Chamber noted that the mercurial Vladimir Zhirinovskiy's party, the Liberal-Democratic Party of Russia, had done extraordinarily well in the past, taking a majority position in the city legislature in the late 1990s. Yet, as economic conditions improved, the tendency to support opposition parties has diminished, leaving United Russia as the predominant power for at least the near term.

19. (SBU) A lack of competition from outside players has helped to reinforce Tolokonnskiy's stature. Novosibirsk boasts few natural resources and thus has not been of great interest to the powerful Moscow-based financial-industrial groups that continue to shape political life in more well-endowed Krasnoyarsk, Irkutsk, and Kemorovo regions. The region had been ravaged by conflict between local criminal groups in the 1990s, according to journalist-turned-PR specialist Zaynal Tarkhov, but the governor had carried out a campaign to break their hold, with some members sent to prison and the others absorbed into the elite.

Manageable Conflict

110. (SBU) Whatever political maneuvering that happens in Novosibirsk is happening behind the scenes within the United Russia elite. As

an example, Tarkhova noted tensions within the city elite over administration plans to move to a "party-list" system of elections for the city legislature. At stake is a pot of money, divided among the current single-mandate delegates, for use in resolving particular issues -- essentially a "slush fund" for delegates to disperse as needed among their electorate. Legislators to the regional assembly had once enjoyed their own funding pools, but lost access to the money once the region went to a party-list system. Now, according to Tarkhova, control over even this small pot of money allows city delegates more influence than their supposedly more influential compatriots on the regional legislature. Naturally, the current members of the city legislature oppose the plans.

¶11. (SBU) The other possible source of political intrigue is the upcoming Novosibirsk city mayoral elections in March 2009, but already there seems little chance for real political competition. Tarkhova and Aykashev argued about which regional businessmen within United Russia might have considered a bid for the office, but they agreed that the public bid of support for Gorodetsk by the party's political committee in early October signaled that there would be only one "real" candidate for the post. Prokina agreed, noting that she had heard of certain businessmen who had made noises about running for mayor until they heard of potential "investigations" by the fire inspectors and tax police, which deterred them from going forward. Promises of a "calm" election process appear to foreshadow yet another set piece of managed democracy.

Clouds on the Horizon

¶12. (SBU) There is a fine line between stability and stagnation; the growing financial crisis could be the test of Novosibirsk's political vitality. Already the credit crunch has had a negative impact on some regional business. Contacts reported that the building industry has seized up because of a lack of credit, an assertion that explains the stilled gantry cranes that stood becalmed over the city. Elena Dugelnaya, the proprietor of a chain of optical shops and chair of the regional Delovaya Rossiya branch, described how her plans to open a new franchise in Krasnoyarsk had run aground because of a lack of credit. Whereas it had previously taken a week to get a loan, she had been rejected by two banks and was still in a three-month long negotiation with a third. Dugelnaya noted that problems with credit had started far earlier than the recent stock market drop, but had deepened sharply in past weeks. Tarkhova and Aykashev noted that consumers had begun to suffer as well, as car loans and mortgages dried up. They also claimed that people were pulling money out of the banks, including entrepreneurs and businessmen.

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¶13. (SBU) The economic crisis has political relevance, if only because the regional (and city) administration has promoted economic expansion and the building boom as evidence of a successful policy line. Typical of official boasting, Salmoilenko heralded the region's record of 10 percent GDP growth over the past year and took pride in the strong sales by Novosibirsk companies of machinery and equipment to other regions. Were the regional government to fail in mitigating the regional financial crisis, it could lose some of its legitimacy among the business elite and population. Already, Tarkhov quoted her sources in the mayor's office as describing "panic" among the city elite, without a full understanding as to why.

¶14. (SBU) Novosibirsk could be the poster child for the Medvedev/Putin tandem vision for an "innovation economy." Instead of an economy based on resource extraction, the region boasts intellectual capital and business acumen as its most valuable asset -- and it has leveraged that to help bolster growth. At the same time, high commodity prices and demand from the extractive industries for Novosibirsk region's equipment and machinery has been one of the strongest drivers. Moreover, the speculative real estate market, fueled by rapidly rising prices and a building boom, has also contributed to Novosibirsk's fortunes -- with the full support of the government. Now that the financial crisis threatens those two

drivers, the regional elite will face the full responsibility for the slowdown, without any opposition force to share the blame. After years of relative ease, the Novosibirsk elite has a much more difficult set of decisions to make which could, potentially, shake up political stability.

BEYRLE